Report of the auditor-general to Limpopo Provincial Legislature on Sekhukhune District Municipality

Report on the audit of the separate financial statements

Qualified opinion

1. I have audited the financial statements of Sekhukhune District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amount for the year then ended, as well as the notes to the separate financial statements, including a summary of significant accounting policies.

2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Sekhukhune District Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with Generally Recognised Accounting Practice and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA).

Basis for qualified opinion

Property, Plant and Equipment

3. The municipality did not accurately disclose assets under construction at the reporting period in accordance with GRAP17, *Property, plant and equipment*. The work in progress recognised at year end was not adequately supported by source documents. The effect on the financial statements was that property, plant and equipment as disclosed in note 3 to the financial statements was overstated by R45 814 924. In addition, some physical assets were recorded in the financial statements but their existence could not be verified. I was unable to confirm these physical assets by alternative means.

4. The municipality did not adequately assess property, plant and equipment for impairment at the reporting period in accordance with GRAP17, *Property, plant and equipment*. Assets which are not in working condition were not impaired at the end of the reporting period.

Repairs and maintenance

5. The municipality did not capitalise costs which are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) 17, *Property, Plant and Equipment*. The municipality expensed the costs of assets constructed during the year which were supposed to be capitalised. Consequently, repairs and maintenance is overstated and property, plant and equipment is understated by R43 030 269. Consequently, surplus for the year was understated by the same amount.

General expenses

6. Expenditure related to the prior financial year was accounted for in the current financial year contrary to GRAP, *Conceptual Framework*. The effect was that general expenses were overstated by R28 268 106. Consequently, surplus for the year was understated by the same amount.

7. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.

8. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.

9. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matter

10. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Contingent liabilities

11. With reference to note 34 to the financial statements, the municipality is a defendant in various legal claims involving individuals and companies. The municipality is opposing these claims, however, the outcome of the matters cannot presently be determined. As a result, no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

12. As disclosed in notes 36 and 37 to the annual financial statements, the corresponding figures for the financial year ended 30 June 2019 have been restated as a result of errors in the financial statements of the municipality for the year ended 30 June 2018 discovered in the current year.

Unauthorised expenditure

13. As disclosed in note 41 to the annual financial statements, unauthorised expenditure to the amount of R194 744 628 was incurred, as the municipality overspent on the budget.

Fruitless and wasteful expenditure

14. As disclosed in note 42 to the annual financial statements, fruitless and wasteful expenditure to the amount of R513 313 was incurred.

Irregular expenditure

15. As disclosed in note 43 to the annual financial statements, the municipality incurred irregular expenditure to the amount of R74 775 996 in the current year as a result of non-compliance with regulation 38 of the MFMA.

16. As disclosed in note 43 to the annual financial statements, irregular expenditure written off as irrecoverable in the current year to the amount of R472 647 031.

Material losses (water distribution)

17. As disclosed in note 44 to the annual financial statements, material water losses to the amount of R60 682 242 (2018: R97 012 345) was incurred.

Other matter

18. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

19. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

Responsibilities of accounting officer for the financial statements

20. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with Generally Recognised Accounting Practice and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as the accounting officer determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

21. In preparing the separate financial statements, the accounting officer is responsible for assessing Sekhukhune District Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the separate financial statements

22. My objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

23. A further description of my responsibilities for the audit of the separate financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

24. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

25. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/ measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

26. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities[1] presented in the annual performance report of the municipality for the year ended 30 June 2019:

Development priorities	Pages in annual performance report	Opinion	Movement[2]
Development priority 1 - Basic Service Delivery	x – x	Qualified	

27. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

28. The material findings in respect of the usefulness and reliability of the selected development priority are as follows:

Development Priority 1 – Basic Service Delivery

Qualified opinion

29. In my opinion, because of the significance of the matters described in the basis for qualified opinion section of my report, the reported performance information for development priority 1: Basic service delivery is not useful and reliable in accordance with the applicable criteria as

developed from the performance management and reporting framework set out in annexure D to this report.

Basis for Qualified opinion

Reported achievement not supported by sufficient appropriate audit evidence

Various indicators

30. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of targets listed below. This was due to limitations placed on the scope of my work and/or due to lack of adequate integrated performance information structure and system. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievements reported.

Key Performance indicator	Annual Target	Actual progress
Number of Litres of diesel supplied annually	40 000ℓ of diesel supplied annually.	43 774.5ℓ of diesel supplied annually.
Number of Litres petrol supplied annually.	400ℓ of petrol supplied annually.	1494,33ℓ of petrol supplied annually.
Number of Litres of oil supplied annually.	300ℓ of oil supplied annually.	754,8ℓ of oil supplied annually.
Number of registered sanitation incidents resolved within 14 days	700 registered sanitation incidents resolved within 14 days	Achieved,1159 registered sanitation incidents resolved within 14 days
Number registered water incidents resolved within 14 days	7000 registered water incidents resolved within 14 days	5786 registered water incidents resolved within 14 days
Number tankering services rendered	9.6 Ml delivery of Potable Water in Jane Furse Hospital and Buffelshoek	68.44 Ml delivery of Potable Water in Jane Furse Hospital and Buffelshoek
Number Mℓ of water purchased	10 062Mℓ of water purchased	24 110 816 Mℓ of water volume purchased

Reliability: Disagreement misstatements

Various indicators

31. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below, and the supporting evidence provided did not agree to the reported achievements in the annual performance report. Based on the supporting evidence provided, the achievement was different from those reported in the annual

performance report, but I was unable to further confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements of the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

Performance indicator	Target	Reported achievement as per APR	Achievement as per supporting documents provided (POE)
Number of bulk water pipeline constructed and main pump station tested	15 Km of bulk water pipeline constructed and 2 main pump stations tested	Not Achieved, 15 Km of bulk water pipeline constructed and 2 main pump stations tested	Special piping and chamber construction works for project 5 was at 66%, and project 5a was at 89%.
Number of bulk water pipeline constructed and main pump station tested	15 Km of bulk water pipeline constructed and 2 main pump stations tested	Not Achieved, 15 Km of bulk water pipeline constructed and 2 main pump stations tested	Special piping and chamber construction works for project 10 was at 86%

Performance indicators were not well-defined and targets were not specific, measurable and time bound.

Various indicators

32. I was unable to obtain sufficient appropriate evidence that clearly defined the pre-determined source of information to be used when measuring actual achievement for the indicator below. The source information, evidence and/or method of calculation for achieving the planned indicator were not clearly defined. The planned targets for these indicators were not specific in clearly identifying the nature and required level of performance to measure and enable verification of performance achievement and set targets. The systems and processes that enable reliable reporting of achievement against the indicator were not adequately designed.

Performance indicators per SDBIP	Performance indicator per APR
Percentage of lab chemical purchased	Percentage of lab chemical purchased
Number of Plants participating in Blue and Green Drop Certification programme in plan	15 WTW participating in Blue Drop and 16 WTWW Participating in Green Drop Certification Programme

Other matter

33. We draw attention to the matter below. Our opinion is not modified in respect of this matter.

Achievement of planned targets

34. Refer to the annual performance report on page(s) x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the qualified opinions expressed on the usefulness and reliability of the reported performance information in paragraph(s) x to x of this report.

Adjustment of material misstatements

35. We identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information Basic Service Delivery. As management subsequently corrected only some of the misstatements, we raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are included in the basis for qualified opinion paragraphs.

Report on the audit of compliance with legislation

Introduction and scope

36. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

37. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements, performance and annual reports

38. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

39. Reasonable steps were not taken to prevent irregular expenditure amounting to R74 775 996 as disclosed in note 43 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with the procurement process. Irregular expenditure amounting to R66 798 290 was incurred on VIP sanitation projects.

40. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R531 313 as disclosed in note 42 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by interest charged on overdue accounts.

41. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R194 744 628 as disclosed in note 41 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

Procurement and contract management

42. Some of the contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations. This non-compliance was identified in the procurement processes for the VIP Sanitation projects.

43. Some of the contracts were awarded through competitive bidding processes that were not adjudicated by the bid adjudication committee. This non-compliance was identified in the procurement processes for the VIP Sanitation projects.

44. Some of the competitive bids were adjudication by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2). This non-compliance was identified in the procurement processes for the VIP Sanitation projects.

45. Some of the contracts were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b). This non-compliance was identified in the procurement processes for the VIP Sanitation projects.

Other information

46. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.

47. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

48. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

Internal control deficiencies

49. I considered internal control relevant to my audit of the separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

50. Although the leadership reviewed the annual financial statements and the annual performance report prior to their submission for audit, the internal control environment is not operating effectively as a number of misstatements were still identified.

51. There was no adequate review and monitoring of compliance with applicable laws and regulations.

52. The leadership did not have an adequate record keeping system to enable reliable reporting on performance achievement and retrieving of supporting information used to prepare financial statement.

Other reports

53. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

54. The municipality erroneously paid an amount of R5 452 014 into incorrect bank accounts during July 2018. As a result, investigations are being conducted by management to determine the liable parties. Some officials responsible were suspended during the year.

55. Attorneys were appointed to investigate an allegation of possible irregular expenditure relating to the award of VIP toilets tenders awarded without following the SCM process. These investigations were in progress at the date of this audit report.

56. Attorneys were appointed to assist recover money previously paid to service providers for services not yet rendered (VIP sanitation projects), relating to 2013/14 reporting period. The money paid to the service providers was still under investigation at the date of this audit report.

Auditor-General

Polokwane

30 November 2019

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the separate financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the separate financial statements as described in this auditor's report, I also:

   - identify and assess the risks of material misstatement of the separate financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
   - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer/ accounting authority
   - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Sekhukhune District Municipality ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

[1] **Terminology used**

Different terminology may be used in the annual performance report; the same terminology should be used in the auditor's report. Scoping is done at the highest level of reporting: programmes are relevant to departments and public entities with programme structures; objectives are relevant mainly to entities; and development priorities are relevant to municipalities.